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James M. Cannon - 2PM meeting

No New Spending - Fri, March 14





EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

MAR - 7 1975



MEMORANDUM FOR: THE PRESIDENT
FROM: JAMES L. LYNN
SUBJECT: Meaning of "New Spending Initiatives" Action

Background

You have made the following formal statements on the moratorium on new spending:

BUDGET MESSAGE:

"I am proposing no new spending initiatives in this budget other than those for energy."

LIBRARY SPEECH:

"In my State of the Union and subsequent messages, I will not propose any new Federal spending programs except for energy, and the Congress -- your representatives in Washington -- share an equal responsibility to see that no new spending programs are enacted.

"I will not hesitate to veto any new spending programs the Congress sends to me. Many proposed Federal spending programs are desirable and have had my support in the past. They cost money -- your tax dollars. Mainly it is time to declare a one-year moratorium on new Federal spending programs."

STATE OF THE UNION MESSAGE:

"I am now in the process of preparing the budget submissions for fiscal year 1976. In that budget, I will propose legislation to restrain the growth of a number of existing programs. I have also concluded that no new spending programs can be initiated this year, except those for energy. Further, I will not hesitate to veto any new spending programs adopted by the Congress."

We are at a point on various pieces of legislation where further guidance is needed as to the meaning of the moratorium.

*not in 76
then
they
begin*

Mar '77 or '78

Discussion

Although there are others, we face four basic types of problems in interpreting the moratorium:

Deferred Effective Date

These are proposals for legislation that would go into effect subsequent to FY 1976. Perhaps the most important legislative initiatives where this question has arisen involve National Health Insurance and Welfare Reform. Tab A attached sets forth the relevant portions of your Budget Message on these two items. However, the principle also extends to other initiatives.

Administrative Costs Only

These also cover a wide range of initiatives, from a Commission on Observance of National Holidays and Commemorative Occasions to the Consumer Protection Agency, Toxic Substances Act, and Federal No-Fault Insurance legislation. Further listings are set forth at Tab B.



Costs Covered by Fees

It appears that the Toxic Substances Act could be designed in a way that administrative costs would be fully covered by fees from those regulated.

Consolidation, Restructuring or Reform Proposals

The budget includes a number of these, as shown by Tab C.

I understand Tab C is a listing Roy Ash discussed with you to obtain clarification as to whether any of the items shown represent new spending initiatives to be deleted from the budget. Although a number of the items on the list are easily explained as being consistent with the moratorium, on the basis that they are simply extensions of old programs (e.g., the defense and construction programs on page 3), it is difficult to explain some of the other items on a basis that excludes some of the initiatives now being proposed, e.g., the biological services initiative in Interior.

Options

1. Oppose, for one year, any new legislation contemplating any unreimbursed Federal expenditures, even though the effective date would be subsequent to June 30. The rationale would be

- the top priority of Congress should be initiatives that deal with recession and energy problems and reforms that reduce, rather than increase, expenditures outside of these fields; and
- it is undesirable to lock in new spending laws now, even with a deferred effective date, because we should determine the scope of new spending programs only when we have a better picture of the total economic scene, budget deficits, etc. at the time the laws are to become effective.

Pros

- Would be the "toughest" position on trying to hold down expenditures to make room for only those initiatives that are targeted on the recession and our energy problems.
- Would be a convenient "out" to explain lack of support for particular initiatives, e.g., Consumer Protection Agency, perhaps Land Use, etc.
- Might hold down budget deficits.

Cons

- Difficult to rationalize some initiatives already in the budget, e.g., Child nutrition program consolidation, allied services and Library resources demonstration proposals, etc.

Adopt this option _____

Reject this option _____

2. Eliminate initiatives involving administrative expenses except those that are directed at coping with serious human safety problems, e.g., Toxic Substances Act, where delay could conceivably mean substantially increased hazard exposure. Where outlay impact of the initiative is very small, many would perceive the ban as unreasonable.

Adopt this option _____

Reject this option _____



3. Construe the moratorium as not being applicable to initiatives involving administrative costs, whatever that cost may be.

The rationale would be that the moratorium was only on grants-in-aid and various financial assistance such as Federal loans, loan guaranties and the like. This does not mean, of course, that certain of these types of initiatives could not be opposed on grounds other than the moratorium, e.g., the Consumer Protection Act or the Toxic Substances Act.

Pros

- Would focus the attention on the need to constrain the big ticket items, e.g., domestic assistance programs such as National Health Insurance, increased spending for welfare reform, and other forms of assistance to State and local governments.
- With such focus, greater acceptance of the principles of the moratorium.

Cons

- Of course, this option would increase the deficit. Although initial year expenses might be low, past experience indicates administrative expenses for any program can grow substantially in the out-years. For example, although EPA's estimate of first-year costs of the Toxic Substances Act would be \$3 million, OMB's guess is that the costs could easily rise to \$30 million by 1980.

Adopt this option _____

Reject this option _____

4. Same as Option #3, but interpret the moratorium to apply to any program where annual costs in any of the first three years of the program might exceed a specified amount.

Pros

- A compromise that preserves some of the pros and dampens some of the cons presented in Options #1 and #2.



Cons

- Extremely difficult to predict administrative costs of a program in advance and would bend estimate to the low side.
- Once the programs are in effect, extremely difficult to eliminate them later and, although initial aggregate budget effect may be small, it can be much more material in the out-years.

If you accept Option #4, what expenditure amount should be the dividing line:

\$10 million per year _____

\$25 million per year _____

Other _____ (\$ _____ million)

5. Exclude from the moratorium programs that are paid by user fees as is possible for the Toxic Substances Act.

Adopt this option _____

Reject this option _____

Attachments



From the 1976 Budget Message

National Health Insurance

"America needs to improve the way it pays for medical care. We should begin plans for a comprehensive national health insurance system. However, in view of the economic developments and the measures I have proposed to combat recession and inflation, I cannot now propose costly new programs. Once our current economic problems are behind us, the development of an adequate national medical insurance system should have high national priority. I urge the Congress to work with my Administration in order to devise a system that we will be able to afford."

Welfare Reform

"Our present welfare system is inefficient and inequitable. It is wasteful not only of tax dollars but, more importantly, of human potential. Left unchanged, over the long run the situation will almost surely continue to deteriorate. I urge the Congress to work with my Administration to develop reforms that make the system simple, fair, and compassionate. This approach need not cost more, but rather can use our welfare dollars more effectively."

New Programs Requiring
Only Administrative Costs

Approximate
Annual Cost

(In millions)

Health, Education, and Welfare

Food and Drug Administration:

Food registration 2
Medical devices 4

Office of Education:

Library resources integration and
demonstration (identified in budget) 20

Treasury

Customs: New Trade Act 12

Community Services Administration

Proposed incentives, community food and
nutrition research and demonstration bill 50

2 - Dairies
4 - " "
*20 - with grant to
is look*
12 - odd

50 - odd



January 2, 1975

New Programs in the 1976 Budget
that May Be Considered Initiatives

1976
Outlays
Affected
(in millions)

A. Consolidation, restructuring or reform of existing programs:

Agriculture - Child nutrition programs consolidation 1,476

Transportation:

Aviation -- Comprehensive proposal which would:

- (1) convert present airport grant program into block grants to States and local airports;
- (2) provide additional long-term authorization for new airway facilities;
- (3) restructure aviation tax system to provide more equitable charges (decrease overall air carrier fees and increase general aviation charges); and
- (4) open trust fund to permit funding of FAA maintenance costs, +\$30M outlay and +\$17M receipts in 1976. 648

Highways -- Comprehensive long-range proposal which would:

- (1) provide long-term highway funding through 1980;
- (2) extend highway trust fund, but restrict trust funded programs to interstate highway system and reduce trust fund receipts by returning 2¢ of gas tax to general fund and rescinding 1¢ of gas tax (if States pick up) in 1978 and beyond;
- (3) prioritize completion of interstate segments and reduce categorical funding programs; and
- (4) rescind all unobligated contract authority as of October 1, 1976. None



1976
Outlays
Affected
(in millions)

A. Consolidation, restructuring or reform of existing programs -- Continued:

Veterans Administration:

- To carry out recommendations of Quality Survey of VA hospitals 212
- Activation of ten new outpatient clinics 9

- Interior -- Consolidation into a new Office of Water Research and Technology functions of the Office of Saline Water and the Office of Water Resources Research 19

B. New programs appearing in the budget for the first time but previously announced:

- Treasury -- Petrodollar facility 1,000

- Labor, HEW and Commerce -- Program announced at Columbus, Ohio on August 30 for "partnership of labor and educators," including grants to provide data on available occupations and a Federal-State-local partnership of fellowships 5

Interior:

- Plan to lease all promising Outer Continental Shelf oillands by 1978 announced in November 1974 85
- Trust Territory initiatives under pending legislation 88

- Veterans Administration -- Grants for State veterans cemeteries 5

C. "New" programs not previously announced:

- Interior -- Biological services are planned for the Fish and Wildlife Service. The Service will study the resource programs of the entire Department to understand adverse effects on fish and wildlife and their habitats 9

- SBA -- Legislation is proposed to permit full cost recovery interest rates on SBA direct loans 200

1976
Outlays
Affected
(in millions)

D. New Defense programs:

Operations:

Two new Army divisions	70
Increased Air Force tactical air crew ratios	100

Procurement:

Contingency stockpiling for allies:

(1) 30-day stockpile for Asian allies	5
(2) Inventory replenishment fund in advance of foreign sales	30

Navy Captor Mine	5
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Navy trainer aircraft	2
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B-1 Bomber	15
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Air Force Modular Guided Glide Bomb	2
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R&D:

Airborne Intelligence System (Navy)	12
---	----

Navy air combat fighter - major development	66
---	----

Short-Range Air Defense Missile (Navy)	10
--	----

Various Army ordnance and missile programs	7
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Advanced Air Defense Suppression System	12
---	----

Air Force air combat fighter - major development	120
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Construction:

DIA building	4
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Diego Garcia expansion	10
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THE WHITE HOUSE
WASHINGTON
March 11, 1975

SECRET
my recommendations
are described
below.
[Signature]

MEMORANDUM TO: ~~JIM CANNON~~
FROM: DICK DUNHAM *[Signature]*
SUBJECT: Lynn Memo - New Spending Initiatives

- Option 1. Reject
- Option 2. Reject
- Option 3. Reject
- Option 4. Reject
- Option 5. Adopt



In view of the strong public position and statements that the President has already made concerning "new program initiatives," I do not see how he can publicly change his position at this time.

I do not think, however, that a program which is self-supporting by fees or charges need fall within the proscription against new spending. The Toxic Substances Act is the example cited in the memo.

There are two other alternatives that should be considered if the President decides to stay with the "no new spending" initiatives.

The first is new spending programs could be approved if they are offset by savings or reductions in some other programs. That is no net change in the budget.

The second alternative is to consider new spending programs which begin after June 30, 1976 or the last quarter of 1976. These exceptions could be made only when long range savings can be imputed from the five-year projections.

An example here would be new programs such as Universal Health Insurance which may cost more in the first year or two of operation but would reduce government expenditures over a longer period.

[3/14/75]

President

No new grant-in-aid program
starting in '76

Many will be
further in -
recom in '76 would
not anticipate any new
federal money in '76

Wells

comes in state of union
in '76

6.
As to T. Wells to part program
no new ops



Political and credibility

in 7 the way - "I'm opposed."

do not take antagonism too well
Veto.